PUBLIC ADMINISTRATION AND DEVELOPMENT

Public Admin. Dev. (2014)

Published online in Wiley Online Library
(wileyonlinelibrary.com) **DOI**: 10.1002/pad.1686

GOVERNANCE AND STAKEHOLDER INVOLVEMENT IN THE DUTCH PENSION INDUSTRY, LESSONS FOR DEVELOPING COUNTRIES

JOHAN A. M. DE KRUIJF[1]* AND MICHIEL S. DE VRIES[2]

[1]*Trustee UWV-Pension fund, Radboud University Nijmegen, The Netherlands*
[2]*Radboud University Nijmegen, The Netherlands*

SUMMARY

The article discusses governance structure and stakeholder involvement in pension plan reforms. Although the global financial crisis has put pressure on pension reforms, some reforms were implemented earlier because of sustainability issues that had emerged on the basis of, among other issues, demographic trends. We show, based on Dutch experiences, that stakeholders and individual participants in particular were only partially involved in these changes. On the basis of these findings, we propose some tools to improve stakeholder involvement, which can contribute to sustainable support from stakeholders to pension plans.

KEY WORDS—pensions; governance; reforms; stakeholders

INTRODUCTION

In this article, we examine governance structures and stakeholder involvement in pension reform in OECD-countries (Organisation for Economic Co-operation and Development) countries. It has been suggested that pension reforms are one of the many responses to the financial crisis. However, although they did not receive much attention at the time, several changes in pension systems were already implemented before the Global Financial Crisis having a structural impact on pension plans for the coming decades. When the financial crisis severely affected the funding ratios, stakeholders became aware of a mismatch between their expectations of solid pension plans and the actual possibilities those pension plans could realize. In many countries, this resulted in stakeholder interest groups expressing their concerns and governments pressuring pension plans to improve their governance and communication and involvement with stakeholders.

Has this stakeholder involvement become reality? We argue that even in a country like the Netherlands – known for its *Poldermodel* in which stakeholders are always involved in decision-making processes – the actualization, until now, has been very limited.

In the following section, we present some preliminary remarks about pension systems in OECD countries. In The Essence of Stakeholder Analysis, we provide the essence of stakeholder analysis found in the literature and apply this to the world of pension plans. We follow this with a case study on the problems that emerged in one specific OECD country – the Netherlands – and the resulting changes in its pension system (The Three Pillar Pension System in the Netherlands and its Problems). We conclude with suggestions for changing the governance structure of the pension system and some guidance for other countries that are considering setting up second-pillar plans.

*Correspondence to: J. A. M. de Kruijf, Trustee UWV-Pension fund, Radboud University Nijmegen, The Netherlands. E-mail: j.dekruijf@fm.ru.nl

SOME REMARKS ON PENSION SYSTEMS WORLDWIDE

Based on studies by the World Bank, the analysis of pension systems is based on the five pillar model, developed by Holzman and Hinz (2005). A detailed analysis of the five pillar system is discussed in another article in this special issue. Our remarks focus on the first-pillar and second-pillar plans. In general, a first-pillar plan is a government-controlled plan funded on a PAYGO basis. Second-pillar plans are compulsory and (fully) funded but need not be controlled by government. In the remainder of this article, we will consider pension plans to be 'private' when more than a third of the aggregated first-pillar and second-pillar retirement income is generated from privately run pension plans (OECD, 2013: 159).

Since 2009, two institutions have been assessing international trends in pension systems systematically, namely, the OECD and Mercer.[1] Whereas the OECD focuses on quantitative analysis and qualitative assessment of pension systems in member states and some other major economies, Mercer provides a more qualitative analysis based on the adequacy, sustainability and integrity of the system. Mercer's analysis is based on a standard set of some 50 questions posed to consultants in the countries studied, in a way that allows for objective assessment (Mercer, 2013: 13). The OECD dataset consists of 42 countries. Mercer covers 20 countries, 19 of which are also covered in the OECD study. The countries that are exclusively studied in the OECD report include 17 countries with fully public first-pillar and second-pillar pension systems. Four countries have pension systems with more than half of weighted pension income generated from public resources, and the last two countries have a strong bias towards weighted pension income from private sources. The Mercer and OECD lists include countries normally defined as emerging markets. Both reports also include both defined benefit (DB) and defined contribution (DC) pension systems.

Both OECD and Mercer essentially cover mandatory first-pillar and second-pillar systems, leaving out the non-mandatory third pillar as well as pillars 0 and 4. We have used the two most recent publications of Mercer (2013) and OECD (2013) to provide an overview of the quality of pension systems in the countries studied. The OECD study provides information on the composition of weighted average pension wealth in a country for the mandatory parts of the system. These data were used to qualify a country's pension system as public leaning or private leaning. The Mercer study generates the Global Pension Index (GPI), which is the weighted score on all questions in the study. This score is further divided into three sub-scores: (1) adequacy refers to the level of benefits provided; (2) long-term quality refers to the sustainability of the system; and (3) integrity covers governance issues. Table 1 provides the average scores on the Mercer Global Pension Index and its sub-indices for the 19 countries that are included in both studies. Scores range from 0 to 100. Mercer comments that differences in scores below 2.0 do not suggest substantially better pension systems. When the difference in scores is 5.0 or more, this is an indication of meaningful variations in the pension system (Mercer, 2013: 7).

The overall finding is that Mercer assesses countries with a bias towards private systems as substantially better systems based on all three main perspectives (Mercer, 2013: 7). Even if the private DB systems were excluded, countries with pension systems that lean toward private provision of weighted pension income have higher scores than countries with purely public pension systems. Theoretically and from a governance perspective, a DC system allows for more direct participant influence because it enables investment policies based on individual preferences. Except for the Danish case, all DC systems mentioned earlier are basically individual systems. The two main disadvantages of such systems are the higher costs and conversion problems at retirement (Bodie and Prast, 2007; Tretiakova and Yamada, 2011; Mercer, 2013: 13). A DB system requires another setup. If not, the guarantee of a certain income at retirement cannot be met. Therefore, participants' involvement cannot be as direct as in a DC system.

The conclusion from the international comparison is that countries that lean toward private organised pension systems seem to be performing better than public pension plans in terms of adequacy, sustainability and integrity.

THE ESSENCE OF STAKEHOLDER ANALYSIS

Stakeholder analysis may identify relevant groups who have an interest in the operations of a pension fund. The original stakeholder theory was based on the idea that separation of commercial and ethical issues within a

[1] Mercer is a consultant on human resource and social security issues.

DOI: 10.1002/pad

Table 1. Average scores on Mercer indices for mandatory pension systems (our calculations based on Mercer (2013) and OECD (2013); score range 0–100)

	Mercer GPI	Mercer adequacy	Mercer sustainability	Mercer integrity	Countries included
Public leaning systems ($n=11$)	54.2	57.2	59.5	63.4	BR, DE, CA, CN, FR, ID, IN, JP, KR, UK, USA
Private leaning systems ($n=8$)	67.9	67.5	67.0	76.8	AU, CH, CL DK, MX, PL, NL, SE
Private DC ($n=6$)	67.5	65.2	65.4	74.1	AU, CL DK, MX, PL,SE
Private DB ($n=2$)	76.1	74.6	71.6	85.0	CH, NL

GPI, Global Pension Index; DC, defined contribution; DB, defined benefit.
We have used the ISO 3166 list for internet country codes to list the countries.

company is not sustainable (Freeman *et al*., 2010: 3–5). By including other groups in addition to shareholders, a more balanced approach to the strategic management of an organisation might be realised. Many definitions of stakeholder exist (e.g. Mitchell *et al*., 1997; Jensen, 2002; Bryson, 2004), but the classic definition by Freeman (1984: 46) is ‘any group or individual who can affect or is affected by the achievement of the organisation’s objectives’.

According to Freeman *et al*. (2010: 11–14), the organisational environment plays a vital role in achieving the organisation’s goals, irrespective of the precise definition of that goal. Tullberg (2013) rephrases the stakeholder issue as an issue of cooperation between partners. If conflict emerges, it would harm the organisation as a whole.

A major debate in stakeholder theory is how to identify relevant stakeholders. Here, two main schools of thought emerge. In one school, stakeholders are limited to those who have power to directly influence the organisation’s future (Mitchell *et al*., 1997: 857; Bryson, 2004: 22). This includes financiers, employees, customers, suppliers and the local community within which the organisation is operating (Freeman *et al*., 2010: 24). In the other school, being affected by an organisation is sufficient to qualify an individual as a stakeholder (Bryson, 2004: 22) without including society as a whole (Phillips, 2003: 20). In this case, stakeholder status is extended to government, competitors, interest groups and the media.

The stakeholder issue is as relevant in public service organisations such as health (e.g. Brugha and Varvasovszky, 2000) and public administration (Freeman *et al*., 2010, p. 177–180; Bryson, 2004) as it is in commercial organisations. Public administration scholars used stakeholder theory *avant la lettre* with an emphasis on agenda setting and decision-making processes (refer to Brugha and Varvasovszky, 2000, for an elaboration).

One line of analysis identifies involvement and relevance of a particular policy within an organisation for each of the stakeholder groups. Another line analyses policy development within time frames (Brugha and Varvasovszky, 2000), which might lead to expectations on the development of support for or opposition to a particular policy. Yet another angle is suggested by Bryson (2004), who developed a model that identified the relevant topics for stakeholders and then analysed the relations between different groups of stakeholders and their relative power within the policy field at issue.

We were surprised not to find explicit stakeholder analysis in the literature on pension plans. There are only partial elements of such an analysis (Ambachtsheer, 2007: 59). Nonetheless, stakeholder analysis might be relevant in pension plans. The stakeholders are all the people contributing to and benefiting from the state pensions, whether they realize it or acknowledge the interests at stake.

One can distinguish four potential stakeholder interest conflicts, namely between the following:

1. retired and active plan members;
2. employers (organisations) and employees (trade unions);
3. government and pension funds; and
4. the board of pension funds and the participants in those funds.

Although we do not include the role of other stakeholders, such as the media, which can accelerate change by publishing pension information, or national banks, which may act as supervisors on behalf of government, or lobby

DOI: 10.1002/pad

groups, which try to influence pension plans, the main conflicts of interests are, according to us, visible in the four dyads aforementioned.

The interests of retired and active plan members can clash. Young and old people have different interests in how pension funds invest their contributions. Retired participants want to secure their income levels with low-risk investments. Active participants need excess return on their investments and are thus likely to prefer higher risk levels. Some pension plans conducted surveys on aversion to risk as a means of identifying acceptable levels of risk. (PNO-Actueel, 2011; Vollenbroek, 2013). It was found that, in general, participants suffer from financial illiteracy (Alessie *et al.*, 2011; Gallery *et al.*, 2011). Financial illiteracy particularly holds for women and lower educated individuals, and the financial crisis has not changed this (Alessie *et al.*, 2011). Longevity is even less comprehensible to plan members. However, a DB system implies a lifelong benefit that can only be funded by either excess returns or additional funding at the expense of active plan members. Given the demographic shifts, costs of additional funding might be favoured by the retired members but judged too high by active plan members, resulting in unsustainable DB plans (Frijns Committee, 2013: 12). This is one of the reasons why DB plans in the UK are being closed to new participants (e.g. Grady, 2013).

The second grouping covers the conflicting interests of employers and employees. From a cost perspective, the level of premiums and the resulting accrual level are an important issue. Both employers and employees have an interest in stable levels of premiums, for either competition or purchasing power reasons. After the financial crisis, this became visible because the funding levels of pension funds decreased. Pension funds with insufficient funding levels might increase premiums to comply with regulations on recovery plans or decrease the pensions of the participants, which are only directly observed by retired participants. Second, in cases of underfunding, the premium level might be set at a cost-covering level including a surplus for recovery. In theory, this surplus is in the interest of all participants in a pension plan, but the active participants suffer, generating a further conflict of interest between retired and active participants.

Employers' objectives with respect to pension plans address manageable costs and competitive compensation (Ambachtsheer, 2007: 59) because such plans affect their competitiveness and are seen as an important human resource tool (P&Oactueel, 2007). In company pension plans, direct involvement of all stakeholders is possible (Ebbinghaus, 2007; Anderson, 2008; Kiosse and Peasnell, 2009; Grady, 2013). In industry or insurance-based plans, however, the individual company and its employees have no choice but to accept and sponsor the plan.

Employer's organisations and trade unions, the so-called social partners, may negotiate on the setup of pension plans. In particular, trade unions, whose members include elderly men (e.g. Belzer, 2010), are faced with debates on the way forward. Many members and staff of the unions persist in maintaining the current retirement age. Furthermore, a transfer of risks (Smith and MacLaren, 2011; Tretiakova and Yamada, 2011) from sponsor to participants – as is the case when a DB system is closed in favour of a DC system – may be difficult to accept. Second, social partners may take important positions in the governance of pension funds. In many funds, representatives of trade unions and employer organisations are members of the pension fund board. In addition to wage negotiations, governing and deciding pension plans are two of the core businesses for trade unions (Marier, 2012). An issue in this regard is that labour relations are changing. Lifelong employment in one company is not the standard anymore. Häuserman (2010: 226) refers to the transition to a post-industrial society, whereas pension plans are still set up on the basis of single-income lifelong careers. This problem directly affects the legitimacy of organized labour in western countries with increased numbers of self-employed, flex workers and women in the labour market who do not feel represented by trade unions (Belzer, 2010). This increases the observed mismatch between individuals' requirements and the present DB setup of many second-pillar plans (Frijns Committee, 2013: 19). In a proposal by youth organisations, a compulsory form of DC plan might mitigate this mismatch (Nieuwpensioenstelsel.nl, n.d.)

The third dimension refers to political interaction with pension funds, that is, the laws, regulations and the controls of the government on the pension funds. At the political level, pension reform is an issue to be solved preferably in cooperation with social partners, not only to prevent blockades in the realisation of policy changes (Marier, 2012: 324; Ebbinghaus, 2011: 317) but also to reduce the possible electoral impact of decisions (Ebbinghaus, 2011). In addition, the political level sets the framework for oversight as well as fiscal facilitation of pension savings.

The fourth dimension refers to the extent participants can influence decisions of the boards of privately organised pension funds. The key task of a pension fund board is to execute the pension plan. Such boards can

DOI: 10.1002/pad

be held accountable for the operational continuity of the fund at different levels including investment returns, liquidity, organisational continuity, adequate administration, outsourcing and reasonable costs as well as for the distribution of excess or shortfall of returns among its participants. This is often realised by outsourcing activities to one or more specialised service providers. In the latter case, the board organises a form of checks and balances within the system of pension provision. This requires adequate skills and competencies among board members, an issue that is high on the agenda of many a supervisor.

Hence, there are many stakeholders involved in a pension system and many potential conflicts. A specific problem for the area of pension funds is that not all stakeholders are knowledgeable about the specifics involved in policy changes. Furthermore, not all have equal influence in the governance structure of pension funds. This is indicative of the dilemmas involved, which we address at the end of this article.

THE THREE-PILLAR PENSION SYSTEM IN THE NETHERLANDS AND ITS PROBLEMS

General information about pension systems in different OECD countries is useful because many countries face similar problems from the ageing of society, and the effects of the stock market crash where many pension funds had invested their premiums. An in-depth analysis of the problems in one country and the solutions sought for these problems might provide better insight into what is at stake. In this section, we present the outcomes of an analysis on the Netherlands. We begin with a concise overview of the pension system in the Netherlands, and we follow up with a summary of the main challenges it faces and the solutions sought.

Characteristics of the Dutch pension system

The Dutch pension system is a three-pillar system in which state, labour market and private components co-exist. According to the OECD study (2013: 159), some 63% of mandatory pension income in the Netherlands is generated from private sources. Early retirement programs still exist, but they will end by 2015, and we do not address them here. In the Netherlands, informal support by families and neighbours is not regarded as part of the pension system.

The first pillar[2] consists of the state pension, which is a basic provision for all people beyond 65 years. First-pillar pensions in the Netherlands are not means tested like in Denmark (Ploug, 2003:73). When the first pillar was created in the 1950s, the population over 65 years in most developed countries was slightly above 10%. One of the problems in financing this pension is that nowadays, almost a quarter of the population in OECD countries is over 65 years (van Nimwegen and van Praag, 2012). Furthermore, the life expectancy of people reaching the pension age was, at the end of the 1950s, 11 years (for men) and 13 years (for women), whereas nowadays, life expectancy is 21 years (for women) and 17 years (for men) (van Nimwegen and van Praag, 2012). So, more people benefit for a longer period, making this pension very costly. This problem is becoming more serious, because it is based on tax funding on a PAYGO basis. The declining birth rate in developed countries to less than two children per family has made this system expensive for the population at large. Hence, the problems in the first-pillar pensions are mainly caused by a combination of demographic trends.

Second-pillar plans existed long before first-pillar plans were created. Companies started pension plans in the early 1900s. These plans gradually transferred to the present industry wide or company plans in which trade unions and employers decided upon the setup of the second-pillar pension plan, within the boundaries of the legal framework established by government. In an industry plan, all companies subject to the relevant labour agreement are compulsory participants in the industry pension plan. The majority of second-pillar Dutch pension plans are either industry-wide pension plans (e.g. Stichting Pensioenfonds ABP (ABP) for civil servants) or company pension plans (e.g. Shell pension fund), and some 90% of the labour force participates in Dutch second-pillar plans (Anderson, 2008: 14).

The first and second pillars experience common problems. First, premiums are not differentiated, despite higher life expectancy, for instance, of wealthy people and women. Second, everyone benefits when reaching the age of 65 years,

[2]By 2012, some €31 billion (5% of GDP) was paid on behalf of the first pillar in the Netherlands.

DOI: 10.1002/pad

whereas one starts to pay as soon as one starts to work. The demographic problems and these characteristics of the pillars results in conflict between generations because younger people are burdened with higher contributions, whereas older people see their pensions frozen instead of indexed to inflation.

From a governance perspective, second-pillar plans are separate legal entities, independent from government and individual companies. The independent status of the pension fund involved assures that accrued assets and liabilities of the pension plan are separated from the company's balance sheets. Therefore, bankruptcy does not immediately threaten the continuity of the pension fund. The system is monitored by independent supervising institutions.

The default Dutch second-pillar plan is characterised by a nominal DB system. Efforts to change the system to a system with better inflation compensation assurance are pending (Frijns Committee, 2010; Kortleve, 2013). Retired participants in particular contest the proposed changes because they prefer certainty over risk and do not want to face the risk of a nominal benefit cut that cannot be excluded in the proposed system. International developments for companies with respect to accounting; examples from other countries, such as Denmark and Australia (Ploug, 2003), and labour market developments within the Netherlands show a tendency toward future DC systems. Youth branches of political parties have proposed setting up a DC-based system with risk sharing on longevity. The latter would be realised by leaving profits and losses on expected longevity within the system rather than paying out the remainder of the annuity to heirs (Nieuwpensioenstelsel.nl, n.d.).

We only briefly address the third and fourth pillars. The third pillar is meant for those who cannot make sufficient savings in second-pillar plans. This primarily concerns entrepreneurs and the self-employed. Until recently, fiscal packages allowed for saving in the third pillar, but banks and insurance companies took advantage by introducing high costs for such plans at the expense of individual participants. Because of the profit orientation of banks and insurance companies, third-pillar plans are too costly (OECD, 2013: 10). This, combined with abuse by some providers has reduced popularity of third-pillar savings substantially.

A fourth pillar does exist, but is – at least in the public opinion – not part of old-age-related savings. A recent report by the ministry of Finance (Ministerie van Financiën, 2013: 24) shows that the cohorts 55–65 and 65–75 years old have more than twice the level of assets as the adjacent cohorts. Ideas for using these assets are not supported, and it is not hard to find proposals to transfer the assets to children for example. Even the government is supporting such transfers by facilitating transfer of accrued assets to children under the condition that it is used to buy a house.

In short, the Dutch pension system is a combination of a public first-pillar PAYGO, a second-pillar employee-based private DB system, with additions in third-pillar and fourth-pillar pension plans. This makes the Dutch case relevant in every aspect.

Recent changes in the Dutch pension system

Changing the pension system has proved to be burdensome. Political efforts to change the first-pillar system were discussed in the early 1990s but failed on at least two occasions (De Beer, 2009). It made politicians cautious about proposing changes in the first-pillar pension plan. The Global Financial Crisis and the euro-crisis created the policy window for change (cf. Kingdon, 1995: 166). The pension system as a whole ran into a crisis, and a difficult debate in 2011 resulted in a national pension agreement signed off by Cabinet, trade unions and employers. This agreement resulted in a gradual increase in the first-pillar retirement age to 67 years in 2023. From a stakeholder perspective, it can be claimed that the 2012 election at least showed acceptance for this change.

Problems in the second-pillar plans[3] included sustainability issues, which were mainly solved by changing to an average-wage DB system rather than a final-wage DB system, mergers and liquidations of pension funds,[4] reducing the number by more than half in some 10 years to less than 400 by the end of 2012 (Bikker, 2013: 7; DNB, 2013) and stricter solvency rules including market valuation of liabilities. Although solvency rules are relatively

[3]Assets under management by end 2012 in second-pillar plans were some 1 trillion or 150% GDP with a close to 100% funding level. The five largest pension plans manage more than 500 billion assets.

[4]Liquidation could be triggered not only by financial non-performance but also for reasons of not being able to meet the current governance requirements anymore. In most cases, liquidation implies transfer to an insurance company.

DOI: 10.1002/pad

unimportant from a governance perspective, it is one of the reasons for the current debate on the sustainability of pension plans given the low interest rates. Furthermore, changes were made to adjust governance issues such as influence of participants (Parliament, 2005: 3) and changes in the labour market.

From 2008 onward, pension funds were hit by two factors driving funding ratios in many cases below required levels. The first factor is the economic one, related to the stock market crash and low interest rate levels as a result of central banks' interventions to support economies. The other factor has an actuarial background. As of 2007, longevity was no longer calculated not only on historic data but also on expected improvements in life expectancy because of medical innovations and individuals' behaviour. In 2010, the revised model led to an increase of longevity of around 1 year (Actuarieel Genootschap, 2010: 13), which was incorporated into pension funds' liabilities.

Before the Global Financial Crisis, the average funding ratio of Dutch pension funds was some 140% of liabilities (DNB, 2012). At the end of 2008, funding levels had dropped to on average just below 100%, and in extreme cases, to around 80%. This was the wakeup call for participants, and a huge debate on the sustainability of the Dutch system began. With pressure from within the industry, the trade unions and political parties, the political system intervened at several stages to postpone the most painful and direct measure of forcing pension plans to announce benefit cuts. In the end, benefit cuts could not be avoided and were implemented by Spring 2013, affecting some 5.3 million participants from a total of 16.9 million participants.

Table 2 provides a summary of the most relevant changes in the last decade. According to the OECD, only minor changes in pension plans are evident in the Netherlands, and they did very little to resolve issues such as adequacy and financial sustainability (OECD, 2013: 25).

A stakeholder analysis of the changes in the pension system

How do these changes in the system relate to the interests and involvement of stakeholders? Given the possible conflicts, has the governance structure in the Dutch pension system changed? Table 3 provides an overview of key changes related to stakeholder issues.

Table 2. Major changes in the Dutch pension system since 2000

	Problem	Solution
First-pillar issues Post crisis	1. Retiring baby boomers	1. Gradual increasing the retirement age to 67 by 2023
	2. Longevity	2. 2024 onward, systematic additional increase retirement age
Second-pillar issues Pre-crisis	1. Cost level of final-wage DB system	1. Shift towards average-wage DB system
	2. Governance issues small second-pillar plans	2. Liquidation and mergers of second-pillar plans
	3. Weak accounting and solvency standards	3. Market-based accounting + higher solvency standards
Second-pillar issues Post crisis	1. Average accrual generates generation conflict	1. Not solved yet
	2. Funding below 100%	2a. Short term: Relaxing solvency rules temporarily Limiting benefit cuts when needed to 7% maximum. Adjusted liability calculation rules based on ultimate forward rate Benefit cuts where needed 2b. Long run: New setup based on increased retirement age including preference on indexation. Implicit debate on replacement rate in political system
	3. Longevity increase	3. Incorporated in liabilities and funding
	4. Risk distribution in DB system unclear	4. Partly: new setup, but tendency to DC
	5. Loss of confidence, general and on size and scale of plans	5. Focus on transparency and information

DOI: 10.1002/pad

Table 3. Key changes in the system in relation to Stakeholder issues

	Stakeholder issues	Key changes
Participants	Generation conflict	Surveys on risk appetite
	Financial illiteracy	Standardised annual overview of entitlements per plan Internet application providing summary of all first-pillar and second-pillar entitlements
	Longevity	Political decisions on higher retirement age (67) accepted but no influence on contents of second-pillar plans
Employers/employees	Stability of premiums	2008: increase due to underfunding 2014 onwards lower cost based on new fiscal package
	Decide upon plan	Implementation of higher retirement age in plan: work in progress In company funds consent by workers council if continuity of plan is at stake
	Changes in labour market	None
Politicians	Sustainability	Pension agreement with social partners Increased retirement age in the first and second pillars A more restrictive fiscal package
	Oversight	Regulation on competences of board members Accounting and funding level standards not solved yet
Boards	Operational continuity	Mergers and liquidations Trend to professionalization
	Legitimacy	Board members representing retired participants required Modernisation of internal oversight Stakeholders propose rather than appoint board members

At first sight, it seems that the governance structure of pension funds was balanced in that it emphasised participation of beneficiaries as well as the need to have competent members in pension fund boards and to make those boards accountable. However, in the aftermath of the financial crisis, some cases of mismanagement arose, and politicians started to question how pension plans were actually run. According to them, the increased complexity of investments and decision making in the pension industry required a change from a paternalistic structure toward a more transparent, democratic and expertise-based governance structure (Frijns Committee, 2010: 4). This called for changes that gave more power to pension fund beneficiaries. However, several boundary conditions allowed for limited changes in the influence of beneficiaries.

The distribution of powers between the institutions of a pension plan and social partners deciding upon the pension plan remains complex. In the revised legislation, consent concerning any changes to the fundamental setup of a plan has to be achieved. First, consent is required between employer and trade unions negotiating on labour contracts. Second, within the company, the workers council has a right of consent if the continuity of the fund is under discussion. Finally, the pension board has to decide whether a proposed pension plan is feasible from the perspective of the financial setup and whether it can be implemented from an operational perspective.

At the individual level, participants still lack substantial influence. They are merely to be informed after the decisions have been made. The question is whether this is sustainable. One sees a generational conflict appearing in which, particularly, younger people are trying to organise themselves to influence the debate on the future of the present pension plans. Retired participants were already more organised but spoke out more clearly as well. The question is whether their role can stay as minimal as it is, given the interests at stake.

The 2007 pension law introduced external supervision of communication by pension funds. This was a stimulus to provide adequate information to participants in the plan. Two changes were implemented. First, a standard annual overview of (future) pension benefits. This means that participants are able to assess (future) pension benefits from their pension plan. Second, a national register from which information on all first-pillar and second-pillar (future) pension benefits can be retrieved was developed. Specifically, the national register was a success. In the first 2 weeks of operations, over a million people consulted the register, and the total visits in 2011 and 2012 reached over five million (Pensioenregister, 2013). The standard annual overview was less successful. This may have been caused

DOI: 10.1002/pad

by problems in finding an indicator on the quality of a pension plan in terms of purchasing power and risk.[5] Both improvements relate to financial planning tools, and they do not allow, for example, changes in individual investment preferences.

Dutch second-pillar pension plans manage billions of euros on behalf of their participants. The accumulated assets are invested all over the world in various financial instruments. Historically, both industry and company pension plans were managed by people who do not necessarily have the expertise to cope with all the issues on investments and risks in a plan. In industry pension funds, the problem was partially covered. Appointed representatives were required to have at least some knowledge on issues such as pension arrangements and legislation and some knowledge on investments. In company pension plans, finding such knowledge is more challenging particularly, but not only, for the board members appointed by employees. In many smaller company pension plans, the employer appoints the Chief Financial Officer or the head of the human resource department as board member in the pension fund, assuring some knowledge.

After an 8-year discussion, the 2007 pension law included a requirement on the *ex ante* assessment of candidate board members. The assessment included eight areas of expertise: governing, legislation, types of pension plans, investment management, financial management, actuarial expertise, internal controls and, last but not least, communication. Since 2007, the supervisor gradually intensified its role in such assessments. In addition to looking at the individual expertise of potential board members, it reviewed the expertise of the board as a whole. Pension plans had to prove that on all required fields of expertise, at least two board members met the standards as set by the supervisor. The debate on expertise and integrity gained momentum in 2010 when the pension supervisor stated that the number of Dutch pension plans should decline from some 600 to 100 for reasons of expertise and governing power (Gotink, 2010).

As to the influence of retired participants, as early as the late 1990s, debates on their role in second-pillar plans began taking place, but none of the plans were effective. The initial idea was to make a covenant between social partners and organisations of pensioners to include pensioners in the governance system of pension plans. In 2002 and 2007, members of the Parliament proposed draft laws to formalise the influence of pensioners in second-pillar plans. The third attempt started in 2008. It proposed that employees and pensioners would be proportionally represented on the board of a pension fund according to the number of participants of each group in the pension plan. Officially, the law is effective as of 1 July 2013. However, it will not be implemented because a more fundamental change in the pension funds' governance structure overrules this law. The representation issue does not solve the sustainability issues raised by younger generations and broader developments in the labour market.

The fundamental revision of the governance structure was partially driven by the supervisor's claims that pension plans should be governed like large financial institutions. The new legislation, effective from July 2014, includes five key changes in pension funds' governance structure.

The first change concerns the setup of the pension board. It allows for several options based on the traditional boards and a fully independent board. The existing pension boards may choose an option that best fits their purposes. Ideally, all stakeholders will subsequently be involved.

The second change concerns the distribution of powers within the board. Pensioners will be represented in pension boards unconditionally, but their influence will be limited to a maximum of 25% of the seats, unless the board as a whole decides otherwise. It is believed that this will protect employers from having a minority position and thus contribute to sustainable governance of the fund (Parliament, 2012: 8).

The third change is related to internal supervision. Under the new law, industry pension funds are required to create an internal (two-tier) supervisory board, but the supervisory board has limited powers and is not allowed to appoint or dismiss the operational board members.

In the 2008 pension law, the participants' council was required to advise the pension board prior to key decisions. This role is now considered obsolete because the board includes representatives of all three main stakeholder groups. The co-governance role of the participants council is replaced by the accountability body, having basically an *ex post* rather than an *ex ante* advisory role.

[5]The indicator is called 'indexation label' and was required until early 2011.

DOI: 10.1002/pad

The fifth change concerns the appointment of board members. Under current law, expertise on pensions is a requirement for board members. In practice, this implies that board members could be assessed by the system supervisor after their appointment to the board. If necessary, they are required to take courses on pension issues. The new law introduces three changes. In addition to technical knowledge, board members must have the relevant skills and professional attitude to manage, and they must have these abilities before being appointed. These changes imply that the board has to assess *ex ante* whether a candidate fits the profile. As a result, the role of stakeholders is reduced to selecting and proposing candidates for board positions.

CONCLUSIONS AND RELEVANCE FOR LESS-DEVELOPED COUNTRIES

In this article, we investigated changing stakeholder involvement in pension plans. We presented the essence of a stakeholder analysis and applied this to stakeholders in pension plans. Second, we analysed the five pillars that form the basis of pension plans and the merits of the dominance of these pillars in OECD countries. Third, we presented a case study on the pension system and the changes in one of the OECD countries, namely, the Netherlands.

The stakeholder analysis proved useful in analysing the problems, interests and changes in pension systems. It enabled us to identify the conflicts of interests, the varying influence of different stakeholders and the implications of consequent changes in pension systems.

The international comparison indicated that pension systems with substantial private elements in the second pillar are superior to pension systems, which are basically public. Of course, isomorphism is no guarantee for success, and it might be helpful to find out whether implementation of successful pension systems can be easily and effectively transferred internationally. Building up a second-pillar system can be hard if immediate effects are expected (Moss, 2013).

Looking more closely at the actual changes in the governance structure of Dutch pension funds, we determined that the influence of retired and active participants in the pension funds always has been minimal and, despite the new laws, continues to be minimal. Changes are more a form of window dressing than fundamental, but there has been an increase in accountability and transparency of pension boards' decision making. After boards make their decisions, they have to publish their plans and inform their members. However, this only partially addresses the problem of the stakeholders and their potential mutual conflicts. Indeed, in the decision-making process, the balance seems to have shifted from representing conflicting interests toward prioritizing expertise among the decision makers in the pension fund boards. Knowledge, skills and a professional attitude are deemed more important than a representation of interests. The inclusion of representatives of all the mentioned conflicting interests groups in pension boards, in addition to sufficient members having the necessary expertise, might be beneficial for all involved.

More generally, there is a trend toward more accountability and transparency, but not toward more stakeholder empowerment. This seems unsustainable, especially given growing intergenerational conflicts and the conflict of interest between retired and working people. Such conflicts of interest, which have been latent up to now, require a democratic, that is, political intervention, and cannot be remedied by the increasingly technocratic boards. If such intervention is not realized in a timely manner, pressure to move towards individual DC plans will increase and may threaten the system as a whole. Politicians can solve the reverse solidarity from low to high incomes by capping income levels in second-pillar plans without intervening in the fundamentals of the system.

Creating second-pillar pension plans requires bottom–up support from stakeholder organisations for two reasons. One is that it makes old age savings acceptable for individual participants. The other is that organized stakeholder power may prevent politicians from short-term motivation to intervene in the pension system of a country, as what happened in Hungary (as pointed elsewhere in this journal) or Poland and even recently in the Czech Republic, despite positive comments on recent reforms in that country (Sourbes, 2011; Batty and Hailichova, 2012; Krzyzack, 2014). In these cases, the change of a political regime is a threat to the continuity of a pensions system, so consensus and trust must be at the core of the pension system as a whole. In the Dutch case, this was achieved by creating non-commercial independent institutions based on bottom–up initiatives but acknowledged by the political system as a whole. Business organisations have contributed to this from a perspective of good personnel management (ensuring good information and advice to individual employees) and from the

DOI: 10.1002/pad

perspective of sustainable financing ensuring that second-pillar pensions are seen as a form of postponed wages and part of employees' remuneration rather than as an additional cost component.

Although we did not address independence in depth in this article, we would argue that because only commercial financial institutions will have relevant expertise in many cases, the business model of a second-pillar plan should minimise incentives for these institutions to sell their own investment products rather than looking for the best investment solution in the market, which is in the interest of the pension plan. Elements contributing to reduced incentives may include strong focus on cost transparency, limiting the role of the institution to that of a fiduciary that is not cross-selling its own asset management products and independent performance measurement and control.

Literature on developing countries provides examples of other industries where these bottom–up initiatives are successful. First, Kim (2011) refers to forms of institutionalised citizen involvement in policy processes. In the examples given, organisations rather than individuals take the role of countervailing powers to a service provider. One can imagine that these organisations can play a role in the governance structure of pension systems as well, be it in a supervisory board or an accountability body. These types of groups may prove helpful in overcoming political polarisation on pensions as well. Second, Parkinson (2009) refers to bottom–up organisations by information sharing through first users to other participants in the same stakeholder group, which may create a form of legitimacy for a program.

Demographics and labour market developments seem to indicate that funded DB systems are no longer sustainable. If a trend towards DC is developing, the essential difference between second-pillar and third-pillar systems is the mandatory character of the second-pillar system. There might be very good reasons to include some forms of risk sharing in a second-pillar system, whereas the commercially driven third pillar does not have these characteristics. If risk sharing is an issue, it should be very clear in the setup of a plan and communicated or debated with participants both beforehand and continuously. Labour organisations, workers councils in companies that are less unionised and key persons in groups (Parkinson, 2009) can play a role in information provision and consultation about the risk-sharing arrangements. Among elements to be addressed are generation-based investment profiles, which help to not only mitigate financial illiteracy but also avoid intergenerational conflicts of interests, sharing of longevity risks given an *ex ante* defined pay-out period and sharing accrual risks between both old and young generations as well as groups with expected relatively long and relatively short labour market participation.

Finally, we would make three general take away points for setting up second-pillar pension systems. First, if a plan is set up, assure that if it is based on solidarity (or risk sharing), the nature of the plan is fully transparent to participants. Second, the issue of longevity is an overarching issue in any pension system, however organised. People are living longer, which means that to have a sustainable pension system, regular adjustments for life expectancy are needed. Third, information and planning tools can help individuals find out the level of expected pensions. This has been an attractive tool in the Netherlands, helping to manage expectations. However, they are not enough to secure the interests of stakeholders.

REFERENCES

Actuarieel Genootschap. 2010. Prognosetafels 2010–2060. Retrieved on 20130916 from http://www.ag-ai.nl/view.php?action=view&Pagina_Id=480

Alessie R, van Rooij M, Lusardi A. 2011. Financial Literacy, Retirement Preparation and Pension Expectations in the Netherlands. DNB Working Paper. Amsterdam: De Nederlandsche Bank.

Ambachtsheer KP. 2007. Pension Revolution. A Solution to the Pension Crisis. Wiley Finance: Hoboken, N.J..

Anderson KM. 2008. The politics of multipillar pension restructuring in Denmark, the Netherlands and Switzerland. Discussion Paper, Social Science Research Center Berlin (WZB). Research Unit Inequality and Social Integration, No. SP I 2008–205. Retrieved on 20130731 from http://bibliothek.wzb.eu/pdf/2008/i08-205.pdf

Batty I, Hailichova H. 2012. Major pension fund reform in the Czech Republic: creating a three-pillar system. *Pensions: An International Journal* **17**(4): 225–228.

Belzer R. 2010. Vakbonden en collectieve arbeidsvoorwaardenvorming: de juridische legitimatie erodeert. *Nederlands Juristenblad* **85**(35): 2275–2279.

Bikker J. 2013. Is there an optimal pension fund size? A scale-economy analysis of administrative and investment costs. In DNB (Ed.), DNB Working Papers (Vol. 376). Amsterdam: De Nederlandsche Bank.

Bodie Z, Prast H. 2007. Pensioenen in de 21ste eeuw: individuele defined benefit producten als wenkend perspectief. *Tijdschrift voor Pensioenvraagstukken* **2007**(4): 15–19.

DOI: 10.1002/pad

Brugha R, Varvasovszky Z. 2000. Stakeholder analysis: a review. *Health Policy and Planning* **15**(3): 239–246. DOI: 10.1093/heapol/15.3.239.

Bryson JM. 2004. What to do when stakeholders matter. *Public Management Review* **6**(1): 21–53. DOI: 10.1080/14719030410001675722.

De Beer P. 2009. Verhoging van de AOW-leeftijd is niet nodig, wel gewenst. *Socialisme & Democratie* **66**(7/8): 83–84.

DNB. 2012. Uitkomsten enquete DNB naar pensioenpremies en toeslagverlening 2012. Herstel van vertrouwen van huishoudens in de financiële sector blijft tot nu toe uit. DNB-Bulletin. Retrieved on 20130917 from http://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/dnbulletin-2012/dnb276524.jsp [Accessed date 20 Juni 2012].

DNB. 2013. Vijf jaar pensioensector: kortingen en indexatie in perspectief. DNB-Bulletin. Retrieved on 20130917 from http://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/dnbulletin-2013/dnb286393.jsp.

Ebbinghaus B. 2007. Governance of supplementary pensions in Europe: cross-national variations in participation and social inequality. Mannheim: Mannheim Centre for European Social Research (MZES). Retrieved on 20130917 from http://www2.warwick.ac.uk/fac/soc/wepn/esrc/pe/seminar1/bernhard_ebbinghaus_paper.pdf

Ebbinghaus B. 2011. The role of trade unions in European pension reforms: from 'old' to 'new' politics? *European Journal of Industrial Relations* **17**(4): 315–331. DOI: 10.1177/0959680111420208.

Ministerie van Financiën. 2013. Inkomen en Vermogen van Ouderen: Analyse en Beleidsopties. (Kamerstukken II, Vergaderjaar 2012–2013, 33736 nr. 1 Bijlage). Ministerie van Financiën: Den Haag.

Freeman RE. 1984. Strategic Management: a Stakeholder Approach. Pitman: Boston, MA.

Freeman RE, Harrison JS, Wicks AC, Parmar B, de Colle S. 2010. Stakeholder Theory: the State of the Art. Cambridge University Press: Cambridge.

Frijns Committee. 2010. Pensioen: "Onzekere zekerheid" Commissie Beleggingsbeleid en Risicobeheer. Den Haag: Ministerie van Sociale Zaken en Werkgelegenheid. Retrieved on 20130731 from http://docs.minszw.nl/pdf/135/2010/135_2010_1_25337.pdf

Frijns Committee. 2013. Kijken in de spiegel. Rapport van de werkgroep integriteit pensioenfondsen. Den Haag: Transparency International Nederland. Retrieved on 20130731 from http://www.transparency.nl/wp-content/uploads/2013/05/130427-Kijken-in-de-spiegel-TINL-Pensioenen.pdf

Gallery N, Gallery G, Brown K, Furneaux C, Palm C. 2011. Financial literacy and pension investment decisions. *Financial Accountability & Management* **27**(3): 286–307. DOI: 10.1111/j.1468-0408.2011.00526.x.

Gotink E. 2010. De Nederlandsche Bank wil 500 fondsen minder. Nederlands Pensioen en Beleggingsnieuws. Retrieved on 20130918 from http://www.npn-online.com/Governance/Deskundigheid/De-Nederlandsche-Bank-wil-500-fondsen-minder

Grady J. 2013. Trade unions and the pension crisis: defending member interests in a neoliberal World. *Employee Relations* **35**(3): 294–308.

Häusermann S. 2010. Solidarity with whom? Why organised labour is losing ground in continental pension politics. *European Journal of Political Research* **49**(2): 223–256 DOI: 10.1111/j.1475-6765.2009.01896.x.

Holzman R, Hinz R. 2005. Old-age income support in the 21st century. An international perspective on pension systems and reform World Bank: Washington.

Jensen MC. 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly* **12**(2): 235–256.

Kim PS. 2011. Civic engagement, politics and policy in South Korea: significant developments but a considerable way to go. *Public Administration and Development* **31**(1): 83–90.

Kingdon JW. 1995. Agendas, alternatives and public policies. Longman: New York.

Kiosse PV, Peasnell K. 2009. Have changes in pension accounting changed pension provision? A review of the evidence. *Accounting & Business Research* **39**(3): 255–267.

Kortleve N. 2013. The "defined ambition" pension plan: a Dutch interpretation. *Rotman International Journal of Pension Management* **6**(1): 6–11.

Krzyzack K. 2014. Raiffeisen to pull out of Czech pensions market after changes Retrieved 20140310, from http://www.ipe.com/raiffeisen-to-pull-out-of-czech-pensions-market-after-changes/10001159.article

Marier P. 2012. Squeezing social partners to embrace reforms: the case of private earnings-related pension schemes. *Global Social Policy* **12**(3): 316–331.

Mercer. 2013. Mercer Global Pension Index 2013. Australian Center for Financial Studies: Melbourne.

Mitchell RK, Agle BR, Wood DJ. 1997. Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts. *Academy of Management Review* **22**(4): 853–886. DOI: 10.5465/amr.1997.9711022105.

Moss G. 2013. Polish government may grab private pension money, predicts academic. Investment & Pensions Europe. Retrieved 20130915 from http://www.ipe.com/polish-government-may-grab-private-pension-money-predicts-academic/51247.article.

Nieuwpensioenstelsel.nl. n.d. Het 10-puntenplan. Retrieved 20130927 from http://nieuwpensioenstelsel.nl/?page_id=6.

van Nimwegen N, van Praag C (ed.). 2012 Bevolkingsvraagstukken inNederland anno 2012: Actief Ouder Worden in Nederland. NIDI: Den Haag.

OECD. 2013. Pensions at a Glance 2013. OECD Publishing: Paris.

Parkinson S. 2009. Modes of influence: participation in publicly administered development programmes. *Public Administration & Development* **29**(2): 145–154.

Parliament. 2005. Regels Betreffende Pensioenen (Pensioenwet). (Kamerstukken II, Vergaderjaar 2005–2006, 30413 nr. 2). SDU uitgevers: Den Haag.

Parliament. 2012. Wijziging van de Pensioenwet en enige andere wetten in verband met versterking van het bestuur bij pensioenfondsen en enige andere wijzigingen (Wet versterking bestuur pensioenfondsen). Memorie van Toelichting. (Kamerstukken II, Vergaderjaar 2011–2012, 33182 nr. 3). Den Haag: SDU uitgevers.

Pensioenregister. 2013. Jaarverslag 2012. Stichting Pensioenregister: Utrecht.

Phillips R. 2003. Stakeholder legitimacy. *Business Ethics Quarterly* **13**(1): 25–41.

Ploug N. 2003. The recalibration of the Danish old-age pension system. *International Social Security Review* **56**(2): 65–80. DOI: 10.1111/1468-246X.00158.

P&OActueel R. 2007. Pensioen is interessante arbeidsvoorwaarde om personeel te werven Retrieved 20140427, from http://www.penoactueel.nl/Personeel/Algemeen/2007/7/Pensioen-is-interessante-arbeidsvoorwaarde-om-personeel-te-werven-PENO000510W/.

PNO-Actueel. 2011. Deelnemers en gepensioneerden schuwen beleggen niet. *PNO Actueel* **2011**: 8–9.

Smith JA, MacLaren JA. 2011. Some thoughts on the decline of pension schemes. *Management Research Review* **34**(12): 1296–1308.

Sourbes C. 2011. Czech Republic's pensions reform beset by problems, experts say Retrieved on 20140310, from http://www.ipe.com/czech-republics-pensions-reform-beset-by-problems-experts-say/41830.article

Tretiakova I, Yamada MS. 2011. What DC plan members really want. *Rotman International Journal of Pension Management* **4**(2): 60–70.

Tullberg J. 2013. Stakeholder theory: some revisionist suggestions. *The Journal of Socio-Economics* **42**(0): 127–135. DOI: 10.1016/j.socec.2012.11.014.

Vollenbroek S. 2013. Praktijkcasus onderzoek risicobereidheid achterban PNO Media Retrieved on 20140427 from http://www.pensioenfederatie.nl/Document/Presentaties/20130207_StephanVollenbroek.pdf

DOI: 10.1002/pad